

fact—might be the means of barring the Soviet Union from the Persian Gulf and the British Empire routes. On the other hand, such an Arab commonwealth would also threaten England's sea and land route to India, and thus in the last analysis the structure of the Empire. It is for the purpose of preventing this that the "national home of the Jews in Palestine" offers a favorable tool.

Indeed, London seems to consider the time ripe to apply the lever for the realization of much further-reaching plans. In 1936, when the mass influx of Jews from Europe led to serious fighting between Jews and Arabs, a new plan made its first appearance. This plan, supported by Lord Melchett, one of the most prominent Jews in England, was to open up Transjordan to Jewish immigration. Transjordan happens to be an artificial and poor state created by England, whose ruler was placed on his throne by England and has been able to hold his position solely through England's patronage and money. But the oil line of Mosul, coming from Iraq, was laid in a curve around Syria through Transjordanian territory. This oil line ends in Haifa, the chief port of Palestine, thus running exclusively across British-controlled territory. In addition to this, Transjordan has a port on the Red Sea; and, to the same extent to which

England must recede from her position of preponderance in Egypt, she has tried and will continue to try to extend her influence on the other side of the Suez Canal in Transjordan.

If England should now have definitely to give up her rights as a mandate power in Palestine, the Jews would remain so to speak as a foothold, and the expansion of their "national home" to Transjordan would become a necessity. In view of the Transjordanian Emir's submissive attitude toward England, this plan appears feasible, and the poor Transjordanians—who are mostly nomads—as well as the wealthy Jews may have no objection to an industrial opening up of this corner between the Mediterranean and the Red Sea. On the other hand, this project hardly fits into the future plans of the Arabs: it represents a "thorn in the flesh" of a future Arab commonwealth.

The British point of view was recently aptly summarized by the *Manchester Guardian*: "Only a highly developed Jewish national home in Palestine can form the basis for England's authority, England's influence, and England's security in the Near East." This definition of the Balfour Declaration has never been recognized by the Arabs and never been dropped by England—P.S.P.V.

"DANGEROUS BANK-NOTE CIRCULATION"

By WALTER SIEK

A few months ago the Finnish Government asked Parliament to pass a law which was to empower the Government to stamp the bank notes in circulation, and at the same time to reduce their nominal value by a certain percentage and compensate their owners with government loans to the same amount. The object of this measure, it was stated, was to reduce the note circulation — which had risen in Finland from

some 2.1 billion Finnish marks (100 Finnish marks=5 Reichsmarks) before the war to 10.4 billions in the spring of 1943—by about 20 per cent.

CAMPAIGN AGAINST BANK NOTES

So far this law has not yet been passed, and perhaps it is not supposed to be passed. Perhaps the intention of the Government was only to scare the people. At any rate,

A financial expert in Berlin analyzes one of the most striking features of present economic life throughout the world—the large increase in cash circulation.

the first rumors about intended measures of the type described were enough to reduce the Finnish note circulation from the high of 10.4 billions to 9.1 billion marks by the end of June. However, the Bulgarian example shows that measures of this kind can be carried out in all seriousness. We also refer in this connection to the events after the Great War, when in Greece, for instance, bank notes were cut in half, one half being recalled in favor of the state, the other being reduced to half its face value.

In Bulgaria a regulation was issued on June 22, 1943, according to which all bank notes of 5,000 and 10,000 leva (equivalent to 150 and 300 Reichsmarks) had to be exchanged by September 20. Those who handed them in received 60 per cent of their value in bank notes of small denominations and 40 per cent in 3-per-cent treasury notes. The Bulgarian Government went even further and ordered the credit institutions to make all payments exceeding a minimum amount, either totally or to the extent of 50 per cent, in treasury notes. However, in contrast to the Finnish plan, which would amount to a compulsory loan from the owners of bank notes, the treasury notes handed to the Bulgarian bank-note holders were short-term treasury notes which could in many cases be used like bank notes in making payments.

Let us finally remember that in March 1943 the Dutch bank notes of 500 and 1,000 gulden were recalled at very short notice, having to be paid in to the Finance Bureaus for tax accounts wherever possible; that in England all notes exceeding £5 are being withdrawn, while the financial press has already demanded their compulsory exchange at short notice in order to prevent the English note circulation from exceeding the limit of one billion pounds, which will soon be reached; and that similar measures are being discussed in France and Switzerland. All this reveals an international campaign against the possession of bank notes.

What is behind this remarkable procedure? The note circulation in all countries—belligerent and nonbelligerent—has risen since the outbreak of war at a surprising rate. An increase to twice the former amount is, so to speak, the rule, and increases to three to five times that amount are not rare. This development is obviously causing anxiety to the heads of the note-issuing banks and ministries of finance, since it is feared that the high figures of the

note circulation may release fears of inflation at home and abroad and harm the national credit. But there is more to it than this: because they are chiefly in the hands of wide masses of consumers, bank notes are generally regarded as latent purchasing power, ready to be used at any moment. The larger the possession of bank notes in the hands of the general public, the more serious does the danger appear that a sudden wave of purchasing power might flood all the dams of market regulation and price control. Furthermore, bank notes, especially the larger denominations, are known by experience to be the sole valid means of payment on the "black market," which might thus be limited by the withdrawal of this medium. And finally, every large hoard of bank notes also represents—at least in countries with a highly developed property tax—a corresponding tax evasion.

WHY SO MUCH CASH?

Hence here are apparently reasons enough to justify measures for restricting the circulation of bank notes—even if they are only of an "optical" nature, as shown in the Bulgarian example. But is the bank note really so dangerous a thing as would appear from all this zeal? The anxiety caused by the high figures of note circulation in competent and incompetent quarters can in its last analysis be traced to memories of the times after the Great War, when the size and trend of the bank-note circulation were generally regarded as an infallible standard by which to measure the extent and speed of the process of inflation. This relationship between the trend of the note circulation and of prices undoubtedly still exists to some extent; but in this war the note circulation has risen considerably even in those countries which have kept prices under firm control, i.e., have been able to prevent any inflation of the kind known hitherto. This fact should make it clear that not only the credit requirements of the government but also other, entirely natural factors may be responsible for the increased circulation of bank notes in war time.

Since the state pays its suppliers mainly not in cash but by way of remittance, the increased government credits appear chiefly as an increase in bank deposits. The size of the cash circulation, however, is determined by the current cash demands of the country's economy and by the "public's" current habits of holding cash. It naturally

risks with a rising economy and a rising national income. But it also rises when the money's speed of circulation is reduced (e.g., as a result of a shortage in goods); when the individual economic units have a growing desire for liquidity; when cheque and remittance payments are reduced (black market); and when interest returns lose in importance and esteem—all factors which have made their appearance in a more or less pronounced form in this war. Above all, this war, which has everywhere brought the masses of the population into motion and enormously enhanced the insecurity of individual existence, has led to an increased personal demand for cash, which in some countries has undoubtedly assumed the proportions of cash hoarding.

ONE SYMPTOM AMONG MANY

So we see that an increased circulation of money is, so to speak, a natural and inevitable part of modern war economy and need not therefore be any indication of the existence and size of a possible inflation. If now and again an excessive cash circulation has been regarded as a handicap to national finances, this anxiety is entirely without foundation. From the point of view of national finances it is more or less a matter of indifference whether the monetary surpluses of the individual economic units appear in the form of cash or deposits; for since nowadays the notes in circulation are issued everywhere by the state, any increase in the note circulation benefits the national finances even more directly than an increase of savings or bank deposits.

In former days, when the circulation of bank notes rose as the result of hoarding trends, people complained that economy as a whole was being paralyzed by the withdrawal of money. Nowadays, the very opposite causes anxiety, namely, that the latent purchasing power crystallized in the bank-note circulation (which lies somnolent as long as bank notes are being hoarded), may, once it starts moving, overstimulate economy and thus release an unrestrained price inflation. This worry may be justified in countries without market and price discipline. But in such cases a restriction of the bank-note circulation by more or less artificial measures does not help much if the economic body and the public possess additional large bank and savings deposits which, after all, as call money represent immediate purchasing power just as much as bank notes do.

The increased bank-note circulation is, as we have shown, only one of the various forms by which the surplus purchasing power of the war years manifests itself in the realm of finance. If a government wishes after the war to prevent the inflation it has just managed to hold back during the war by means of strict control from gaining the upper hand in the end, it is thus not enough to begin with the note circulation. Indeed, what is required is an all-encompassing politico-economic program which aims at tying down and guiding the nation's war-inflated monetary resources in all their possible forms and which keeps the markets under control by fixing prices and production until a normal balance between the supply of money and goods has been reached.

Mental Cruelty

Mrs. F. Hugh is one of the thousands of upper-class English women who evacuated to Canada and the USA in the summer of 1940. In 1943 the husbands of many of these women began to feel that this separation was lasting too long, and the return of some of the wives to England began. Several months ago, Mr. Hugh also requested his wife to fly back to England. But Mrs. Hugh refused and went to Reno, America's famous divorce mill. The American judge was sympathetic and gave her a divorce on the grounds of "mental cruelty."